

Message Text

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C O N F I D E N T I A L PEKING 419

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E.O. 11652: GDS

TAGS: ETRD, EIND, CH, US

SUBJECT: FERROUS SCRAP EXPORTS TO PRC

REF: A) STATE 034369 B) PEKING 137 C) STATE 047137

SUMMARY: USLO OFFICERS, IN A FOLLOWUP TO THE FEBRUARY 15 MEETING WITH PRC OFFICIALS IN WASHINGTON, MADE A DETAILED PRESENTATION TO AN OFFICIAL OF THE CHINA NATIONAL MINERALS AND METALS IMPORT AND EXPORT CORP (MINMETALS) ON US STEEL SCRAP EXPORT CONTROLS. WHILE THE OFFICIAL DID NOT PROVIDE STATISTICS, HE INDICATED THAT CHINA'S REQUIREMENTS FOR US SCRAP COULD BE INFERRED FROM THE SIZE OF PURCHASE CONTRACTS. USLO ENDORSES THE VIEW OF THE DEPT THAT THERE IS A PRIMA FACIE CASE FOR AN ALLOCATION TO THE PRC FROM THE CONTINGENCY RESERVE. END SUMMARY.

1. ON MARCH 12 USLO OFFICERS HOROWITZ AND ROPE CALLED AT MINMETALS TO PROVIDE A FOLLOWUP PRESENTATION TO THAT WHICH WAS MADE IN WASHINGTON ON FEB 15 (REF A). USLO OFFICERS WERE SEEN BY FANG HSIN-MIN (2455/2450/3046), MANAGER OF THE MINMETALS IMPORT DEPT.N WHO IS SENIOR TO WANG YEN, WITH WHOM WE DEALT PREVIOUSLY (REF B). WANG WAS NOT PRESENT AND FANG DID NOT EXPLAIN HIS ABSENCE.

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2. IN HIS PRESENTATION, HOROWTIZ REVIEWED IN SOME DETAIL THE BACKGROUND AND OPERATIONS OF THE SCRAP EXPORT CONTROL PROGRAM, AND PROVIDED FANG WITH COPIES OF ALL PERTINENT COMMERCE DEPT BULLETINS. HOROWITZ PARTICULARLY STRESSED: A) THE NEED FOR INFORMATION ON PRC SCRAP IMPORT REQUIREMENTS, ESPECIALLY SINCE THERE ARE COMPETING DEMANDS FOR ALLOCATIONS FROM THE CONTINGENCY RESERVE; B) THE NEED FOR THE CHINESE TO DEAL WITH THOSE EXPORTERS WHO SHIPPED SCRAP TO THE PRC DURING THE BASE PERIOD; C) THE IMPORTANCE OF FACILITATING SHIPMENT DURING THE PERIODS OF LICENSE VALIDITY AND THE FACT THAT LICENSE EXTENSION -- WHICH THE EXPORTERS MUST APPLY FOR -- IS NOT AUTOMATIC AND DEPENDS ON HARDSHIP; AND D) THE AVAILABILITY OF SCRAP FROM SHIP-BREAKING WHICH IS NOT SUBJECT TO EXPORT CONTROLS.

3. IN THE ENSUING LENGTHY DISCUSSION, FANG WOULD ONLY STATE REPEATEDLY, AND IN STRONG TERMS, THE PRC VIEW THAT CONTRACTS SIGNED MUST BE FULLY EXECUTED, AND URGED USLO'S HELP IN GETTING THE US FIRMS IN QUESTION TO MAKE DELIVERY. HOROWITZ MADE IT CLEAR THAT THE DIFFICULTY IN OBTAINING DELIVERY DERIVES FROM THE EXPORT CONTROL PROGRAM WHICH THE USG RELUCTANTLY HAD TO ADOPT. HE STRESSED THAT IT IS IMPORTANT FOR PRC AUTHORITIES TO UNDERSTAND HOW THE PROGRAM WORKS AND THAT WITH SUCH UNDERSTANDING IT WOULD BE POSSIBLE FOR MINMETALS TO PURCHASE AND OBTAIN DELIVERY OF THOSE QUANTITIES WHICH HAVE BEEN OR MIGHT BE ALLOCATED FOR CHINA.

4. FANG DID NOT RESPOND DIRECTLY TO OUR REPEATED REQUESTS FOR INFORMATION ON PRC IMPORT REQUIREMENTS. HE SAID, HOWEVER, THAT WE SHOULD HAVE SOME IDEA OF CHINA'S NEEDS FROM THE SIZE OF PURCHASES CHINA HAS MADE AND THE SIZE OF THE OUTSTANDING UNFULFILLED CONTRACTS. HE ALSO SAID THAT THE END-USERS OF SCRAP IN CHINA ARE MAKING SERIOUS COMPLAINTS TO MINMETALS ABOUT THEIR FAILURE TO RECEIVE DELIVERIES UNDER THE OUTSTANDING CONTRACTS WITH AMERICAN FIRMS.

5. COMMENT: WHILE FANG WOULD ONLY REITERATE THE IMPORTANCE OF FULFILLING CONTRACTS, HE LISTENED VERY CLOSELY TO OUR PRESENTATION. BY HAVING USLO UNDERSCORE THE MESSAGE IN THE FEB 15 MEETING IN WASHINGTON, WE THINK MINMETALS NOW APPRECIATES THAT THERE IS NOTHING WE CAN DO TO EXERT PRESSURE ON THE US FIRMS IN QUESTION TO

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MAKE DELIVERY. WE MADE IT VERY CLEAR THAT THERE IS LITTLE FLEXIBILITY IN ADMINISTRATION OF THESE EXPORT CONTROLS.

6. WE ARE NOT SURPRISED AT FANG'S RELUCTANCE TO PROVIDE ANY DATA, SINCE THIS IS CONSISTENT WITH THE PRC POSITION RESPECTING ALL ECONOMIC STATISTICS. HE DID, HOWEVER, MAKE IT CLEAR THAT WE SHOULD BE ABLE TO INFER SOMETHING ABOUT THE MAGNITUDE OF CHINA'S REQUIREMENTS FROM THE SIZE OF ORDERS MINMETALS HAS PLACED. WE ALSO

RECALL THAT WHEN USLO OFFICERS MET WITH MINMETALS GENERAL MANAGER T'IENT KUANG-T'AO LAST JULY (PEKING 0650), T'IENT STATED THAT CHINA HAS AN IMPORTANT AND CONTINUING NEED FOR US STEEL SCRAP. USLO THEREFORE ENDORSES THE VIEW OF THE DEPT (REF C) THAT THERE IS A PRIMA FACIE CASE THAT THE PRC HAS A NEED FOR AND CAN UTILIZE SCRAP ADDITIONAL TO THE PRC'S SMALL BASIC QUARTERLY ALLOCATION. A 40,000 TON CONTINGENCY RESERVE ALLOCATION, AS MENTIONED REF C, WOULD DO MUCH TO CONVINCE THE PRC THAT WE INTEND TO ADMINISTER OUR CONTROLS EQUITABLY.

7. USLO WOULD APPRECIATE BEING PROMPTLY INFORMED OF ANY FURTHER DEVELOPMENTS IN WASHINGTON, PARTICULARLY RESPECTING THE CONTINGENCY RESERVE, AND OF ANY OTHER INFORMATION WHICH WE COULD PASS TO MINMETALS FOR THEIR INFORMATION. BY CONTINUING TO KEEP MINMETALS ADVISED, BY INDICATING THAT THE US WILL GIVE CHINA FAIR TREATMENT THROUGH USE OF THE CONTINGENCY RESERVE, AND BY MAKING IT CLEAR HOW MINMETALS SHOULD GO ABOUT OBTAINING THAT SCRAP WHICH MAY BE ALLOCATED TO CHINA, WE THINK WILL DO MUCH TO PRESERVE THE VALUABLE TRADING RELATIONSHIP WE HAVE BEEN DEVELOPING WITH THE PRC.

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